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THE INTERIM

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COMMITTEE ON POSTSECONDARY EDUCATION POLICY AND BUDGET

Committee Meets in Late September...The Committee on Postsecondary Education Policy and Budget (PEPB) heard three reports at the September 30 meeting:

1) "Comparison of Costs Between the Community Colleges and the Colleges of Technology," which concluded that the major differences were the result of higher average salaries and lower student/faculty ratios at the colleges of technology;

2) a report by committee member, Pat Haffey, on the results of the University Teachers Union negotiations at the University of Montana; and

3) a response by Dr. Jeff Baker, the Commissioner of Higher Education, to questions concerning the Montana University System's (MUS) proposed funding method.

Dr. Baker recommended that the MUS and the Legislature work together to develop goals and specific outcomes and to determine incentives to accomplish the goals. He further proposed that the PEPB generally endorse the MUS funding methodology; a lump sum appropriation to the Board of Regents; and establishment of a cost of education and parameters for tuition.

The PEPB deferred all action until additional information on the cost of education becomes available in November.

To Meet Again in November...The next meeting of the PEPB is tentatively scheduled in Room 104 of the State Capitol at 9:30 a.m. on November 16. The agenda for that meeting includes a report from Dr. Jeff Baker on the cost of education and executive action on recommendations of the PEPB to the 1995 Legislature.

LEGISLATIVE AUDIT COMMITTEE

Committee Meets in Late September...The Legislative Audit Committee met September 30 in Room 312-2 of the Capitol building. The following reports were presented:

FINANCIAL-COMPLIANCE AUDITS:

Department of Public Service Regulation
A financial-compliance audit of the Department of Public Service Regulation was performed for the two fiscal years ending June 30, 1994. The report contains no recommendations to the Department. An unqualified opinion was issued on the financial schedules contained in the audit report.

Office of the Commissioner of Political Practices
A financial-compliance audit of the Office of the Commissioner of Political Practices was performed for the two fiscal years ending June 30, 1994. An unqualified opinion was issued on the financial schedules. The report contains two recommendations to improve compliance with state law governing expenditure of restricted appropriations and notifying candidates for public office of their noncompliance with state election laws.

PERFORMANCE AUDIT:

Enforcement of the Water Quality and the Public Water Supply Acts, Water Quality Division, Department of Health and Environmental Sciences
A performance audit of the Water Quality Division (WQD) was requested by the Legislative Audit Committee. Audit work concentrated on the WQD activities relating to enforcement of the Water Quality and the Public Water Supply Acts. Based on the audit

testing, the auditors do not believe WQD is as effective as it could be in enforcing the provisions of the two acts. WQD is not consistently enforcing the provisions of the statutes. Several steps need to be taken to improve the enforcement function:

- A formal enforcement policy should be developed to define program direction.

- Administrative rules for critical program areas should be put in place to help implement the enforcement policy.

- Procedures need to be established to ensure consistency among staff.

- Management controls should be strengthened by defining and communicating an effective supervisory and reporting structure, defining the authority of staff, appropriately delegating authority, and implementing a system to direct day-to-day staff activities.

- Management information systems should be developed to document and track critical activities and ensure data accuracy.

In addition, the Department should seek legislative clarification in several areas, including exclusions from permit requirements, performance bonds, and the economic considerations of enforcement. Water quality statutes also should be re-visited by the Environmental Quality Council to address current statutory inconsistencies and redundancies.

ELECTRONIC DATA PROCESSING AUDIT:

<u>Follow-up Report, Department of Social and Rehabilitation Services, TEAMS Application</u>

The follow-up review was performed of The Economic Assistance Management System (TEAMS), administered by the Department of Social & Rehabilitation Services. The scope of the audit was to determine the implementation status of nine recommendations concerning electronic data processing controls.

Six of the recommendations were fully implemented and three were partially implemented. The recommendations that were partially implemented relate to improving electronic access controls, ensuring client information is accurately and completely entered into the

system, and improving controls over information shared between TEAMS and other computer applications.

CONTRACTED AUDITS:

Montana Medical-Legal Panel, Montana Supreme Court
A financial-compliance audit of the Montana Medical Legal Panel for the years ending June 30, 1992 and 1993, was conducted by Henry Fenton, Certified Public Accountant. The report recommends that a second individual sign checks and review bank reconciliations and cancelled checks. The Panel has adopted the recommendation.

State Employee Benefits Plan, Department of Administration
A financial-compliance audit of the State Employee Benefits Plan for the period March 1, 1992, through February 28, 1994, was conducted by The Segal Company. The report contains 12 recommendations regarding subrogation/third party liability, reimbursement allowances, reports, eligibility discrepancies, premium billings, hospital discount arrangements, injections, mental/nervous ICD9 codes, prescription drugs, overpayment of benefit year maximum, system edits, and workers' compensation.

Coal Board Grants, Department of Commerce
A financial-compliance audit of the Montana Coal Board Grants for the year ending June 30, 1993, was conducted by Veltkamp, Stannebein, & Bateson. The report contains no recommendations.

Committee to Meet in November...The next meeting of the Legislative Audit Committee is tentatively scheduled to be held November 17.

REVENUE OVERSIGHT COMMITTEE

Meeting Scheduled November 30 and December 1...The Revenue Oversight Committee will hold a two-day meeting November 30 and December 1 in Room 104 of the Capitol. The meeting will begin at 9:30 a.m. on November 30. The agenda has not been set, but the primary purpose of the meeting is to adopt economic and other, relevant assumptions that will be used establish the Committee's revenue estimates for consideration by the 54th Legislature. Section 5-18-107(5), MCA, requires the Revenue Oversight Committee to estimate the amount of revenue projected to be available for legislative appropriation, and to

introduce a house joint resolution setting forth the Committee's revenue estimates for the biennium.

The Committee's estimates, as introduced in the Legislature, constitute the Legislature's current revenue estimates until amended or finally adopted by both houses. The Legislature's estimates are intended to be used by state agencies in the preparation of fiscal notes. Questions regarding the Committee's procedure for establishing revenue estimates can be directed to Jeff Martin of the Legislative Council staff, 444-3064.

LEGISLATIVE FINANCE COMMITTEE

<u>Committee to Meet on November 18</u>...The Legislative Finance Committee (LFC) will meet on November 18 in Room 104 in the State Capitol. The tentative agenda includes the following:

- SRS: House Bills No. 33 & 34 reporting requirements
  - Medicaid Estimates (House Bill 34)
  - Managed Care Contracts (House Bill 33);
- budget amendment/private funds report;
- Report of Committee on Postsecondary Education Policy and Budget;
- update on SB 378 study (review of state special revenue accounts and statutory appropriations) recommendations and proposed legislation;
- MT Science and Technology Alliance update:
  - A/G Opinion on use of interest funds
  - executive review of employee conduct laws;
- Dept. of Transportation privatization study review;
- Dept. of Administration debt service financing;
- HB 7 budget development update;
- federal retiree negotiated settlement; and
- status of HB 2 required reports.

Leadership Adopts LFC Recommendations for Appropriations Subcommittee Reorganization...Legislative leadership formally adopted LFC recommendations regarding the realignment of the appropriations subcommittees. The realignment will provide a more even distribution of workload among subcommittees and greater functional alignment of budgets within subcommittees. The realignments will:

- move law enforcement and public safety agencies from the General Government Subcommittee to the Institutions Subcommittee. These agencies are the Department of Justice, Crime Control Division, Highway Traffic Safety Division, Judiciary, and Department of Military Affairs.

- Move the Department of Health and Environmental Sciences' environmental programs from the Human Services Subcommittee to the Natural Resources Subcommittee.

Human Services Provider Rate Working Group Meets...The Legislative Finance Committee directed that a working group of human service provider representatives and staff from state agencies, the Office of Budget and Program Planning (OBPP), and the Legislative Fiscal Analyst develop and recommend a present law budget methodology for non-Medicaid human service providers to the Human Services Appropriation Subcommittee (Subcommittee) during the 1995 Legislative session. (Present law is that level of funding necessary to maintain the level of services authorized by the last Legislature after adjusting for changes such as inflation, deflation, and workload.)

The working group held its final meeting October 17. The group heard reports on preserving independent contractor status and statutory changes necessary to use a consumer price index (CPI) to adjust human service contract budgets for inflationary/deflationary changes. The group also finalized recommendations that will be presented to the Subcommittee during the 1995 Legislative Session.

Group Selects New Budget Methodology...The group considered three types of budget methodologies and selected a CPI method as its preferred option. The group recommended that the U.S. all-city average CPI for urban consumers, published by the U.S. Department of Labor, be used to adjust human service contract budgets for inflationary/deflationary cost changes for the 1997 biennium budget. The group recommended that the CPI be compounded annually. The group also recommended that the base budget in the following biennium (1999 biennium) be adjusted to account for the difference between the actual and budgeted CPI. The group will request that the Subcommittee include language in the general appropriation act requiring that 1999 biennium human service present law contract budgets be adjusted using this methodology. If, after experience over two biennia, human service providers, state agencies, and the

Legislature believe that the CPI adjustment is appropriate, the group will ask the Subcommittee to request a bill to make the CPI methodology part of the state budget development process.

The group adopted three objectives in guiding its selection of a budget methodology -- fairness, simplicity, and equity. Further, the group recommended guidelines of the types of budgets that ought to be included in the budget methodology. The budgets should:

1) be for a mandated service;

2) be for services purchased through a fixed fee;

3) be for services for which the state is the sole or significant majority purchaser; and,

4) exclude Medicaid services with the exception of therapeutic group homes, case management services for the developmentally disabled and for the mentally ill, and community and home-based waiver services for the developmentally disabled.

The 19-member group is composed of provider representatives who contract to deliver services for persons who are developmentally disabled and/or mentally ill, and emotionally disturbed youth. Family foster care, shelter care, group homes, vocational rehabilitation, visual services, pre-release centers, and domestic violence providers also participated. State agency staff from the Departments of Social and Rehabilitation Services, Corrections and Human Services, and Family Services, and the OBPP were members of the group. Staff from the LFA facilitated meetings and prepared reports to assist and expedite group discussion. LFA staff will also prepare a final report, including an analysis of the group's recommendations, for presentation to the Subcommittee.

WATER POLICY COMMITTEE

<u>Committee Reviews Late Claims Recommendation</u>...The Water Policy Committee met on October 7. The Committee reviewed written public comments and took additional public testimony regarding its preliminary recommendation to grant no additional forfeiture remission to late water claim filers beyond the remission granted in SB 310. The Committee will make a final recommendation at the December meeting.

<u>Committee Reviews Work Plan</u>...The Committee also reviewed and received updates on its 1993-94 work plan. The Committee made

preliminary recommendations on specific work plan sections for its report to the 1995 Legislature. These recommendations will also be finalized at the December meeting. Work plan sections discussed included instream flows; weather modification; water data management; the state water plan; water quality nondegradation; the water development program; wilderness dams; state dam operation and maintenance; water research; and state drought response.

To Meet in December...The next Water Policy Committee meeting is scheduled for Friday, December 16 in Room 104 of the State Capitol.

For more information on these issues, please contact the EQC staff at 444-3742.

ENVIRONMENTAL QUALITY COUNCIL

EQC Holds Meeting in September...The Environmental Quality Council (EQC) met on September 30 to consider a number of issues.

Hazardous Waste Study Working Group Makes Recommendations...The HWMWG presented its recommendations to the full EQC for review and discussion. The EQC postponed action on the recommendations until a study report has been completed. Contact EQC staff for a copy of the recommendations.

Regulatory Enforcement Subcommittee Meets...The Regulatory Enforcement Subcommittee held a meeting on Thursday, September 29 to discuss the enforcement study. It reported to the full EQC with recommendations regarding study framework, scope, and timing issues. The EQC accepted the recommendations and will continue to analyze this issue throughout the rest of the interim. The Regulatory Enforcement Subcommittee will meet again at 8:30 a.m., Thursday, November 17 in Room 108 to discuss what, if any, action should be taken regarding this study during the 1995 Legislative Session.

Discusses Natural Resource Agency Reorganization...The EQC reviewed the proposal from the Governor's Task Force to Renew State Government regarding natural resource agency reorganization.

To Meet in November...The next EQC meeting is scheduled for Thursday and Friday, November 17 and 18. Thursday afternoon there will be a joint meeting with the Legislative Audit Committee in Room 437, beginning at 1:30 p.m., to review the DHES Air Quality Division

Performance Audit and follow-up on issues raised in the Water Quality Division Performance Audit. The EQC will then reconvene in Room 108 for a discussion regarding the Council's Hazardous Waste Management Study.

Friday's meeting will start at 8:30 a.m., again in Room 108 of the State Capitol. Agenda items include a continuation of the regulatory enforcement study; an update on the transportation energy efficiency study; and a MEPA case law update. The EQC will also receive and discuss the results of the forestry "best management practices" audits conducted this past summer.

For more information on these issues, please contact the EQC staff at 444-3742.

LEGISLATIVE COUNCIL

Caucuses Set for November 19...The pre-session caucuses will take place on Saturday, November 19, beginning at 8:00 a.m. The official caucus notices will be sent to all legislators and legislators-elect following the election on November 8.

Orientation for Legislators Scheduled...An orientation session for legislators will be held on Friday, November 18 in the House of Representatives Chamber in the Capitol, beginning at 8:00 a.m. During the course of the day, legislators will hear about the legislative process, specifically bill drafting and how a bill becomes a law; the structure and functions of the various legislative agencies; an overview of state taxation and sources of revenue; an overview of the budget and the appropriations process; the role of the media in the legislative process; and a presentation on statesmanship, public trust, and the role of the legislator. Lunch for the legislators will be sponsored by the Helena Area Chamber of Commerce.

Invitations to the orientation will accompany the official caucus notices shortly after the election.

LIBRARY

Committee Minutes Available...Microfiche copies of summary committee minutes from the 1993 Special Session of the 53rd Legislature will be ready for distribution early in November. The set of 37 microfiche costs $7.50. You can send orders to the Montana Legislative Council Library, Committee Minutes on Microfiche, Room 138, State Capitol, Helena, MT 59620-1706.

THE BACK PAGE

When Montana voters go to the polls on November 8, they will confront four ballot measures (actually five, considering Constitutional Referendum No. 27, which would limit a general sales tax rate to 4%). If passed, each of the measures could significantly affect taxation and government spending in Montana.

Three of the proposed measures would amend the Montana Constitution. Constitutional Initiative No. 66 (CI-66) would require voter approval of all state, local, and school district tax hikes or fee increases. It would also limit the growth in the property tax base. Constitutional Initiative No. 67 (CI-67) would require a supermajority approval by the Legislature or by the governing body of a local taxing jurisdiction for higher taxes and fees and for increased spending. Constitutional Referendum No. 28 (CR-28) would allow, but not require, the equalization of property values for property tax purposes to be based on acquisition value rather than on market value. In addition, increases in the value of any class of property may be limited by law.

The fourth ballot measure, Initiative No. 112, would replace Montana's current graduated income tax structure with a flat tax on taxable income. Voter approval of this measure would ratify House Bill No. 671 (HB 671), passed and approved during the 1993 Regular Session. This bill was the alternative revenue measure to a general tax reform package (contained in Senate Bill No. 235 (SB 235) and referred to the voters) that included a general sales tax. Montana voters overwhelmingly rejected the tax reform package. House Bill No. 671 was subsequently suspended by initiative petition, pending voter approval.

The pros and cons of these ballot measures have received much attention in the state's newspapers and in several articles devoted specifically to these issues. In addition, the relative merits of the measures have been, and will be, debated in public forums across the state.

The battle lines have been so sharply drawn over these measures that only a saint could provide an objective analysis of what they mean. Therefore, this edition of the "Back Page" tackles these proposals head-on. Well, actually not. However, it does explore taxpayers' attitudes regarding taxation and government spending in general and reviews recent efforts at tax reform in Montana in order to provide some insight on how we got to this critical juncture in the way state and local governments may be operated in the future.

ON THE MATTER OF TAXATION: REACTION, REFORM, REVOLT

By Jeff Martin

ACIR OPINION POLLS ON TAXATION

Since 1972, the U.S. Advisory Commission on Intergovernmental Relations (ACIR) has conducted annual national opinion polls on the public's attitude regarding taxation. The question on which tax is the worst, or the least fair, has been asked in 19 of the 22 years in which the survey has been conducted (see Table 1). In 1972, the property tax was considered the worst tax by 45% of the respondents, well ahead of the federal income tax (19%), the state income tax (13%), and the sales tax (13%). Eleven percent of the respondents did not know or had no opinion. In 1993, however, the federal income tax was considered the worst tax by 36% of the respondents, followed by the property tax (26%), the sales tax (16%), and the state income tax (10%).

An examination of the annual poll results reveals a bewildering mosaic of the public's attitude toward taxation and government spending. In 1973, 30% of the respondents thought that the federal income tax was the worst tax, an increase of 58% from the previous year. The percentage of respondents disapproving the federal income tax remained at about that level until 1979. In that year, the disapproval rating increased to 37% and remained fairly constant until 1986. Between 1987 and 1991, the negative attitude toward the federal income tax generally declined, but shot up again to 36% in the 1993 survey.

The property tax competes with the federal income tax as the worst tax. Although the negative rating for the property tax remarkably fell from 45% in 1972 to 31% in 1973 (a 31% decline), the property tax was considered the worst tax in 7 of the 19 years that respondents were asked to rate taxes. The negative attitude toward the property tax showed more year-to-year variation, ranging from a high of 33% in 1977 to a low of 24% in 1985 and 1987, than the federal income tax.

The negative rating for the state income tax has shown a more consistent pattern over the years: generally, only 10% to 12% of the respondents think that the state income tax is the least fair. Although the negative attitude toward the state sales tax is more erratic than the negative attitude toward the state income tax, the state sales tax is regarded as less unfair than the property tax.

Table 1: Which do you think is the worst tax--that is, the least fair?

	Federal Income Tax	State Income Tax	State Sales Tax	Local Property Tax	Don't Know/ No Answer
1993	36%	10%	16%	26%	14%
1992			Question Not Asked		
1991	26%	12%	19%	30%	14%
1990			Question Not Asked		
1989	27%	10%	18%	32%	13%
1988	33%	10%	18%	28%	11%
1987	30%	12%	21%	24%	13%
1986	37%	8%	17%	28%	10%
1985	38%	10%	16%	24%	12%
1984	36%	10%	15%	29%	10%
1983	35%	11%	13%	26%	15%
1982	36%	11%	14%	30%	9%
1981	36%	9%	14%	33%	9%
1980	36%	10%	19%	25%	10%
1979	37%	8%	15%	27%	13%
1978	30%	11%	18%	32%	10%
1977	28%	11%	17%	33%	11%
1976			Question Not Asked		
1975	28%	11%	23%	29%	10%
1974	30%	10%	20%	28%	14%
1973	30%	10%	20%	31%	11%
1972	19%	13%	13%	45%	11%

Source: U.S. Advisory Commission on Intergovernmental Relations, 1993

The ACIR survey also asked respondents to indicate which level of government gives them the most for their tax dollar (see Table 2).

The results of this survey question seem paradoxical to the results of the question on the unfairness of taxation. Although respondents indicated that the federal income tax was the least fair in 12 out of 19 years that the question was asked, they also thought that the federal government provided the "biggest bang for the buck" in 12 out of the 20 years that that question was asked. It is incongruous that the federal government, which is probably the most disconnected from the average citizen, would be perceived as best able to spend wisely. The results of the 1993 poll, however, are in sharp contrast (and make more sense) to previous years. Only 23% of the respondents thought that the

federal government gave the most for the money, while 38% thought that local governments did. Except in 1984, state government has been considered the least able to spend taxpayer money wisely. In the public's mind, state government exacts its pound of flesh more fairly than other levels of government, but, apparently, it doesn't know what to do with it.

More respondents were uncertain about which level of government spends most effectively than were uncertain about which tax is the least fair. In most years of the survey, well over 15% of the respondents did not know which level of government spent most wisely, as opposed to 9% to 15% who did not know which tax is the least fair.

Table 2: From which level of government--federal, state, or local--do you feel you get the most for your money?

	Federal	State	Local	Don't Know/ No Answer
1993	23%	20%	38%	19%
1992		Question Not Asked		
1991	26%	22%	31%	22%
1990		Question Not Asked		
1989	33%	23%	29%	15%
1988	28%	27%	29%	16%
1987	28%	22%	29%	21%
1986	32%	22%	33%	13%
1985	32%	22%	31%	15%
1984	24%	27%	35%	14%
1983	31%	20%	31%	19%
1982	35%	20%	28%	17%
1981	30%	25%	33%	14%
1980	33%	22%	26%	19%
1979	29%	22%	33%	16%
1978	35%	20%	26%	19%
1977	36%	20%	26%	18%
1976	36%	20%	25%	19%
1975	38%	20%	25%	17%
1974	29%	24%	28%	19%
1973	35%	18%	25%	22%
1972	39%	18%	26%	17%

Source: U.S. Advisory Commission on Intergovernmental Relations, 1993

STATE TAX REVOLTS

The ACIR surveys do not convey the degree of approval of or dissatisfaction with taxation and spending. All they indicate are the respondents' perception of the relative unfairness of a particular tax and the relative effectiveness of government spending. A better gauge of public sentiment may be found in tax limitation efforts (and in anti-incumbent sentiment manifested by the approval of term limits in many states, including Montana) in recent years.

It is probably no exaggeration to say that property taxes are the taxes people love to hate. While ad valorem property taxation has been the target of tax and revenue limitation efforts in many states since 1970, the passage in 1978 of Proposition 13 in California and the passage in 1980 of Proposition 2 1/2 in Massachusetts provided the catalyst for efforts to further limit property taxes and other taxes as well. In March 1989, the National Conference of State Legislatures published the results of a national survey of the limits states impose on local (excluding schools) property taxes and expenditures. The survey found that 43 states limit local taxes or expenditures in some way. These efforts range from "truth-in-taxation" provisions to property tax rate or revenue limits or expenditure limits. Despite widespread efforts to restrain growth in the public sector, the limitations on taxes and spending have been, apparently, relatively ineffective. Dennis Hale, associate professor of political science at Boston College, cites several explanations for the tax revolt phenomenon and its lack of effectiveness:

- Voters have conflicting desires: they want lower taxes and increased services at the same time.

- A large minority favors smaller government, while a large minority favors increased services. This balance may be tipped by a "swing" vote that is influenced by the perceived fairness of state taxes, the overall state tax burden, or the state of the economy.

- Public officials tend to be revenue maximizers and will not adhere to tax or spending limits if those limits can be legally circumvented.

- Taxes have been increasing while inflation (and other factors) has been eroding income, especially that of the middle class. Under these circumstances, it is not surprising that people would vote to cut their taxes.

- Voters are tired of taxes, especially property taxes. The tax revolt has been primarily directed against the property tax, which

has, in the past (see the discussion of the ACIR opinion polls), been considered the "least fair" tax in the system.

The less-than-expected results in limiting local taxes and spending have led citizens in some states, particularly in western states, to impose limits at the state level. There are at least 11 states that require a supermajority vote of the Legislature or voter approval for tax increases. California (1979), Delaware (1980), and South Dakota (1978) all imposed constitutional restrictions on tax increases during the heady days of the property tax revolt. In 1992, Arizona, Colorado, and Oklahoma (and Washington in 1993) imposed similar restrictions.

MONTANANS REVOLT

In Montana, the first efforts to limit taxation were directed against the property tax. In November 1986, there were two measures on the ballot dealing with property taxation. One, Constitutional Initiative No. 27 (CI-27), would have eliminated property taxes altogether. The other, Initiative No. 105 (I-105) called for a property tax freeze on certain classes of property. The purpose of I-105 was really a plea for general tax reform. Proponents of I-105 argued that taxes are too high and that the tax system is unbalanced. The Declaration of Policy contained in the initiative encouraged the Legislature to develop "a tax system that is fair to property taxpayers; and . . . a method of providing adequate funding for local government and education". CI-27 was rejected by the voters, while I-105 was approved.

Two interrelated legislative responses emerged following the passage of I-105. In the last four regular sessions (1987, 1989, 1991, and 1993) and in the June 1989 Special Session, the Montana Legislature struggled with the issue of general tax reform. The interest in tax reform was inspired by the passage of I-105, by concern that the state's tax system impedes economic development, by chronic structural imbalances in the state budget, and by a desire to improve tax fairness and simplicity.

Tax reform efforts in the 1987 and 1989 Regular Sessions and in the June 1989 Special Session included income and property tax reform coupled with the imposition of a general sales tax. None of the major proposals introduced in this time period became law. During the 1991 Legislative Session, most tax reform measures dealt only with property taxation. The Legislature also considered a measure that would provide for a state income tax based on a percentage of federal income tax liability and a measure that would allow local governments to raise revenue through local option taxes. All the reform proposals introduced in 1991 either died in the legislative process or were vetoed by the governor.

During the 1993 Regular Session, the Legislature finally came to grips, at least in its collective mind, with tax reform. Senate Bill No. 235, introduced by Senator Bruce Crippen, included a general sales tax, revised the individual income tax based on a flat tax rate, and provided significant income and property tax relief. The bill was submitted to Montana voters for their approval or rejection. House Bill No. 671, introduced by Representatives Bob Gilbert and Jim Elliott, revises the individual income tax (and the corporation license tax) in a manner similar to the individual income tax revision contained in SB 235. Because of the higher tax rate in HB 671 and certain other provisions in the bill (such as limiting indexing to one-half of the inflation rate), it would raise more revenue from the individual income tax than under SB 235. The purpose of HB 671 was to provide an alternative revenue source in the event that SB 235 was rejected by the voters. SB 235 was rejected, and HB 671 was later suspended by initiative petition.

The other, related response deals with legislative action affecting I-105. An analysis of the legislative history and the consequences of legislative changes to the original provisions of the property tax freeze, as well as economic and demographic dynamics that altered the property tax base in Montana, would occupy several editions of the "Back Page". However, two specific exceptions to I-105 deserve some mention. One is the provision that school mill levies are not subject to the property tax limitations. The Legislature, in the June 1989 Special Session, exempted school levies from the I-105 limitations as part of overall reform to school funding. The other provision is that property taxes on individual (residential or commercial) property may increase as a result of cyclical reappraisal. Prior to 1993, property values could increase as a result of sales assessment ratio studies. Sales assessment ratio studies were designed to equalize property values between reappraisal cycles. In 1991 and 1992, many taxpayers in the state were hit with a double whammy of higher school levies (including new statewide levies for schools) and with higher taxable value as a result of sales assessment ratio studies. In addition, a taxpayer's property taxes may have increased if local governments did not reduce mill levies commensurate with the higher taxable value.

Following the completion of the Montana Department of Revenue's cyclical property reappraisal in 1992, the taxable value of residential and commercial property increased statewide by an average of 7.3% in 1993. Increases in taxable value in some counties, especially in the western part of the state, were much greater than the statewide average, while in some counties, taxable value actually declined.

Characterizing the relatively large increases in the taxable value of property of many residents "as a crisis in fairness", Governor Marc Racicot directed the Director of the Department of Revenue to establish

an advisory council for the purpose of developing proposals for legislation to address the crisis. The advisory council's recommendations, along with several other property tax proposals, were considered during the November 1993 Special Session. An interesting turn of events occurred when the Governor distanced himself from the Advisory Council's recommendations, while the Democratic senate president endorsed them. No consensus developed, and no major proposals were adopted. The only legislation to come out of the special session dealing with property taxes was CR-28.

CONCLUSION

Montana has not been immune from the antigovernment sentiment that appears to be gaining momentum nationwide. Continued efforts by the citizenry to curtail governments' ability to raise taxes and the passage of term limits in many states speaks to the public's dissatisfaction with government at all levels. Efforts to reinvent government (whatever that means) to address legitimate concerns of the public may come too late to have any effect, at least in the short-term, in Montana or elsewhere.

For Montanans in particular, rapidly rising property values in some parts of the state, the apparent failure of I-105 to limit property taxes, and tax reform that meant higher taxes have all contributed to the perception that state and local tax policy is out of control. Whether this perception is shared by a majority of Montanans will be settled on November 8.

INTERIM CALENDAR

UNLESS OTHERWISE SPECIFIED,
ALL ROOM DESIGNATIONS ARE IN THE CAPITOL

NOVEMBER

November 8, Election Day, holiday

November 11, Veterans' Day, holiday

November 16, Committee on Postsecondary Education Policy and Budget, Room 104, 9:30 a.m.

November 17, EQC Regulatory Enforcement Subcommittee, Room 108, 8:30 a.m.

November 17, Legislative Audit Committee, Room 437

November 17, EQC/Legislative Audit Committee, Room 437, 1:30 p.m.

November 18, EQC, Room 108, 8:30 a.m.

November 18, Legislative Finance Committee, Room 104

November 18, Legislative Orientation, House of Representatives Chamber, 8:00 a.m.

November 19, Legislative Pre-Session Caucuses, 8:00 a.m.

November 24, Thanksgiving, holiday

November 30, Revenue Oversight Committee, Room 104, 9:30 a.m.

DECEMBER

December 1, Revenue Oversight Committee, Room 104

December 16, Water Policy Committee, Room 104

December 26, Christmas observed, holiday

JANUARY

January 2, 54th Montana Legislature convenes, 12 Noon

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